

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

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IN RE: IN RE: PETITION OF AT&T, MCI,)
SPRINT AND WORLDCOM d/b/a WILTEL)
NETWORK SERVICES FOR THE)
COMMENCEMENT OF A RULEMAKING)
PROCEEDING TO PROVIDE FOR THE)
TERMINATION OF PRICE CAP)
REGULATION FOR INTEREXCHANGE)
CARRIERS AND TO AMEND RULE)
1220-4-2-.55(2).)

DOCKET NO. 98-00097

EXECUTIVE SECRETARY

RECOMMENDED MODIFICATION OF PROPOSED RULES AND
REPLY COMMENTS OF THE CONSUMER ADVOCATE DIVISION OF
THE OFFICE OF THE ATTORNEY GENERAL AND REPORTER FOR
THE STATE OF TENNESSEE

The Consumer Advocate Division of the Office of the Attorney General and Reporter for the State of Tennessee submits (1) recommended changes to the proposed IXC rules and (2) comments in reply to the Affidavit of Thomas Randolph Beard filed on behalf of AT&T of the Southcentral States in the form of a Affidavit of Dr. Stephen N. Brown (Attachment A).

Customer Notice of Rate Increases.

Although the current rule requires IXCs to notify customers of proposed rate increases, recently an IXC issued a notice that stated that the company had filed to "revise" rates for A service and that the revised rate would become effective in thirty (30) days. The notice did not state that the rate for the service was to be increased from zero; the current rate for the service was not identified; the proposed rate for the service was not identified, the notice limited

FILE

information gathering to “parties;” and no other information was provided to allow the customer to make a rational decision to inquire or prepare to change service providers. As a result of the defects of this notice the Consumer Advocate Division recommends that the Authority provide some specific language that defines the minimum requirements for customer notice. The Consumer Advocate Division recommends that the following sentence be inserted after the second sentence of subsection 1220-4-2-.55(2)(e)2:

Such notice shall identify the service for which the rate increase or revision is proposed, the existing rate, and the proposed rate.

1220-4-2.55 (2)

(e) Price Increases or Decreases

1. Price reductions shall become effective on the tariff filing date.
The Authority may however, review these reduction upon its own motion or upon the petition of any aggrieved party.
2. Price may be increased thirty (30) days after the price list filing date and after approval by the Authority provided, however that prices for the Residential services category shall not be increased above the prescribed net revenue cap. Affected customers shall be notified by direct mail or by publication of a notice in a newspaper of general circulation in the affected service area thirty (30) days prior to the effective date of any rate increases. ***Such notice shall identify the service for which the rate increase or revision is***

proposed, the existing rate, and the proposed rate. A copy of such notice shall be filed with the Authority concurrent with the tariff filing. Each proposed rate increase shall be accompanied by intrastate minutes of use for the service being increased, as reported in the most recent annual report for that company, the revenue impact of the proposed increase, and all other information necessary to demonstrate that the proposed increase does not exceed the net revenue cap for the residential services category.

3. Any change in the previously approved terms and conditions of a service requires thirty (30) days notice to both the Authority and the customer in order to enable the customer sufficient time to qualify for the service.

Just and Reasonable Rates

The Consumer Advocate Division supports the Net Revenue per minute price cap as proposed for Residential category services and proposes that the rule be modified to insure that rates for the “Other Category “ services are in accordance with Tennessee statutes. The Consumer Advocate Division recommends that the following language be inserted as 1220-4-2-.55(2)(d) 5:

5. *Rates for all services shall be no more than the just and reasonable rates required by Tenn. Code Ann. §65-4-122(b).*

(d) Rate and Price Setting Requirements,

1. IXC services shall be classified as one of two categories of service:
 - 1) Residential services and-, 2) All Other services
- (i.) The Residential Services category shall include all services for which the majority of customers are classified as residential customers by the local exchange carrier for application of local service rates.
- (ii) Any new service that is not classified as "residential" shall be placed in the All Other Services category.
2. The Authority shall only establish a net revenue cap for the Residential services category, The initial aggregate revenue cap for each IXC shall be that company's average intrastate revenue per minute for the Residential services category in effect on the effective date of this rule sub-section less the average intrastate switched access charges per minute for the residential services category in effect on the effective date of this rule sub-section.
3. The prices and price cap for the Residential services category shall be adjusted to reflect any changes in access charges to IXCs. The amount of any access charge change for the residential services category for each IXC shall be the per minute reduction based on total intrastate minutes of use applied to the intrastate minutes of

use in the residential services category for each IXC. The minutes of use shall be those reported in the most recent annual reports under sub-section (2)(i) 5 of this rule.

4. Prices for the All Other Services category may be reviewed in accordance with the provisions of this rule sub-section by the Authority.
5. *Rates for all services shall be no more than the just and reasonable rates required by Tenn. Code Ann. §65-4-122(b).*

This 14th day of October, 1999.

Respectfully submitted,



Vance L. Broemel, Assistant Attorney General
Consumer Advocate Division
Attorney General's Office
425 5th Ave., North
Nashville, TN 37243

CERTIFICATE OF SERVICE

I hereby certify that this document was served on parties of record by U.S. Mail or by facsimile this 19th day of October, 1999.

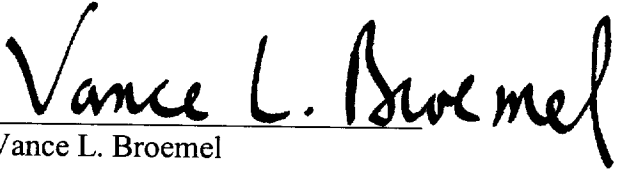
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IN RE: PETITION OF AT&T, MCI, SPRINT)
AND WORLDCOM d/b/a WILTEL)
NETWORK SERVICES FOR THE)
COMMENCEMENT OF A RULEMAKING) DOCKET NO. 98-00097
PROCEEDING TO PROVIDE FOR THE)
TERMINATION OF PRICE CAP)
REGULATION FOR INTERCHANGE)
CARRIERS AND TO AMEND RULE 1220-)
4-2.55(2).)

Comes the affiant Dr. Stephen N. Brown after being duly sworn who deposes and says:

I am Stephen N. Brown.

I am an economist in the Consumer Advocate Division, Office of the Attorney General.

I review utility filings and information relating to rates and rate changes and follow the economic conditions that affect the companies. I also assess and evaluate facts for the Consumer Advocate Division and other entities within the Office of the Attorney General.

From 1986 to 1995 I was employed by the Iowa Utilities Board as Chief of the Bureau of Energy Efficiency, Auditing and Research, and Utility Specialist and State Liaison Officer to the U.S. Nuclear Regulatory Commission. From 1984 to 1986 I worked for Houston Lighting & Power as Supervisor of Rate Design. From 1982 to 1984 I worked for Arizona Electric Power Cooperative as a Rate Analyst. From 1979 to 1982 I worked for Tri-State Generation and Transmission Association as Power Requirements Supervisor and Rate Specialist. From 1979 through 1995

1 my work spanned many issues including cost of service studies, rate
2 design issues, telecommunications issues and matters related to the
3 disposal of nuclear waste.

4
5 I have an M.S. in Regulatory Economics from the University of Wyoming,
6 an M.S. and Ph.D. in International Relations with a specialty in
7 International Economics from the University of Denver, and a B. A. from
8 Colorado State University.

9
10
11 I am a past member of the NARUC Staff Committee on Management
12 Analysis, a past trustee of and a member of the Board for the Automatic
13 Meter Reading Association, and a current member of the National
14 Association of Business Economists.

15
16 I am providing this affidavit in response to the affidavit provided by
17 Professor Thomas Beard in the Notice of Rulemaking: Rule 1220-4-
18 2.55(2) ("IXC Rules.")

19
20 I respectfully submit that Professor Beard's opinion of the net revenue cap
21 proposal in the instant rulemaking as "unnecessary to serve the public
22 interest [Beard affidavit, par.6 subpar (5)]" is incorrect. Professor Beard's
23 reasoning which led him to his opinion is wrong, as is his assertion the
24 proposed rule "will involve numerous serious difficulties that will
25 necessitate further interventions and burdensome oversight." The proposed
26 rule does not create any measurable prejudice or disadvantage to any
27 company.

28
29 TESTIMONY ON THE PUBLIC INTEREST

30
31 The public interest in Tennessee is well served by the net revenue cap
32 because:

33
34 it is competitively neutral since it applies to each and every
35 IXC equally;

36
37 it ensures that IXCs' margins on Tennessee operations will
38 be solely and directly related to their own efficiency rather
39 than their ability to capture access-charge reductions for
40 themselves.

41
42 There are sound policy and economic reasons for the net revenue cap.

Professor Beard dismisses the cap as "unnecessary" because he believes the market is "effectively competitive." If he is correct, then competition would cause the IXC's to provide 100% of all access-charge reductions to consumers. This competitive result would be identical to the result created by the net revenue cap. Therefore, in an effectively competitive situation the cap does no harm whatsoever to the IXC's.

However, if Professor Beard is incorrect, then ineffective competition causes IXC's to keep from consumers at least a fraction of all access-charge reductions. This non-competitive result would allow IXC's to improve profit by making a portion or all of the access charge a price floor for their services. The proposed rule stops the IXC's from using any portion of access-charges as a price floor and prevents access-charge reductions from being a source of profit to the IXC's.

Using access charges as a price floor would surely be harmful to the public interest because the real cost of doing business in telecommunications is continuously declining. Attached to my affidavit is a copy of the U.S. Commerce Dept.'s report, "The Emerging Digital Economy," pages 4 and 5. The information clearly shows declining input prices for the communications industry. Thus Professor Beard's concern at par. 53, "the price cap mechanism makes no allowance for inflation in other input prices" is incongruous with the current trend of declining prices for inputs. He does not acknowledge the trend, nor suggest how and when that trend will be reversed.

If IXC's used access charges as a price floor while input prices decline, the companies would improve their profitability without improving sales volumes or efficiency. Since the rule stops the IXC's from using the access charge as a price floor, their profit improves more rapidly when sales and efficiency improve, regarding Tennessee operations. In the presence of ineffective competition, the rule makes access charges off-limits as source of profit and ties the IXC's' improved profits in Tennessee to their creation of further economic benefits in Tennessee.

Therefore, Tennessee is a relevant market to IXC's, despite Professor Beard's opinion at par. 16 that "Tennessee is not, in economic terms, a relevant market for interlata toll services." He contradicts the treatment of in-state interlata markets articulated in the Telecommunications Act of 1996. Section 271 of that law explicitly requires local incumbent telephone companies to apply for in-region interlata service on a state-by-state basis and requires the FCC to consult with state commissions regarding 271 applications. Also, Professor Beard's assertion is inconsistent with recent data. According to the FCC's "Telecommunications Industry Revenue Report For 1998, Table 8", 27% of IXC's' end-user revenues come from intra-state markets. The table is attached to this affidavit.

IXC's themselves make distinctions between state-to-state calls and in-state interlata calls. Attached to my affidavit are copies of recent advertisements by MCI, Excel and Qwest

1 (all filed by AT&T in this docket) showing their explicit mention of state-to-state rates.
2 Thus in-state interlata markets are relevant and not necessarily analogous to a national
3 market. Professor Beard's argument, that a competitive state-to-state market must imply
4 a competitive in-state market, is not accurate, especially since he has conceded at par. 18
5 "...it appears impossible to obtain reliable sales share data for Tennessee instate, interlata
6 toll calls..."

7
8 Clearly, there is no assurance that Professor Beard's conclusions apply to interlata
9 markets in Tennessee.

10
11 Furthermore, Professor Beard's conclusion that interlata markets are "effectively
12 competitive" is retrospective rather than forward looking.

13
14 For example, at par. 24 he notes that the Herfindahl index, a measure of market
15 concentration, has declined from 4512 in 1990 to 2508 in 1997. However, the recently
16 announced merger of MCI WorldCom and Sprint will increase the index to 3160,
17 according to an analysis performed by the Communications Workers of America. Two
18 pages from that analysis are attached to my affidavit. The first page shows that 80% of all
19 toll revenue is concentrated in three companies, and the second page shows the
20 Herfindahl index increasing from 2623 before the merger to 3160 after the merger.

21
22 It is crystal clear that the TRA's rule is in the public interest, well-grounded in
23 economics, and prudent policy and not simply a reflection of "social concerns" as
24 Professor Beard says at various points in his affidavit:

25
26 At par. 37 -- "I conclude that there is no economic rationale
27 that would justify price regulation of IXC's in Tennessee."

28
29 At par. 42 -- "Social concerns, such as the effects of
30 competitive pricing on low volume or poor consumers,
31 should not be used to derail competition itself."

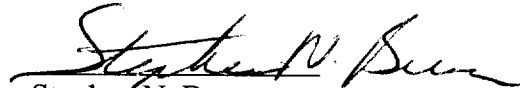
32
33 At par. 47 -- "any application of price regulation in the
34 Tennessee interlata market must be based on either the
35 view that this market is not competitive, or else the belief
36 that general price caps are the best way to achieve some
37 social purpose."

38
39 Professor Beard's characterization is inaccurate.

40
41 The "social concerns" that Professor Beard alludes to are more aptly termed legal
42 requirements, i.e., the rule must conform to the prevailing law, 65-4-123 of the Tennessee

1 In sum, Professor Beard's claims that the rule is not in the public interest, that it expresses
2 social concerns rather than economic ones, and that it constitutes burdensome oversight
are wrong.

Further the affiant sayeth not.

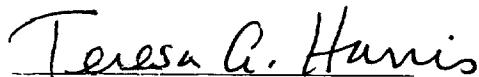

Stephen N. Brown

State of Tennessee
County of Davidson

Before me, the undersigned authority, duly commissioned and qualified in and for
the State and County aforesaid, personally came and appeared Stephen N. Brown, who,
being by me first duly sworn and deposed made the statement above.

Sworn to and subscribed before me this

14th day of October, 1999.


Notary Public

My commission expires Jan. 25, 2003



NEWS

Federal Communications Commission
445 12th Street, S.W.
Washington, D. C. 20554

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<ftp.fcc.gov>

This is an unofficial announcement of Commission action. Release of the full text of a Commission order constitutes official action. See *MCI v. FCC*, 515 F.2d 385 (D.C. Cir. 1974).

September 22, 1999

FCC RELEASES TELECOMMUNICATIONS INDUSTRY REVENUE REPORT \$246 BILLION IN REVENUE FOR 1998

The FCC has released *Telecommunications Industry Revenue: 1998*. According to the newly released report, the telecommunications industry reported \$246 billion in revenue for 1998. Carriers reported \$105 billion of local service revenue, \$37 billion of wireless revenue and \$105 billion of toll service revenue for 1998. Carriers reported that about \$200 billion of this revenue was for services provided to end users.

The data presented in the report are based on carrier Universal Service Worksheet and TRS Worksheet filings. Data on individual companies are not publicly available because companies have requested proprietary treatment.

The report is available for reference in the FCC's Reference Information Center, Courtyard Level, 445 12th Street, SW, Washington, D.C. 20554. Copies may be purchased by calling International Transcription Services, Inc. (ITS) at (202) 857-3800. The report, including the spreadsheets containing the report's statistical tables and the figures, can be downloaded [file name: TELREV98.PDF or TELREV98.ZIP] from the **FCC-State Link** internet site at (<http://www.fcc.gov/ccb/stats>) on the World Wide Web.

FCC

For additional information, contact Jim Lande of the Common Carrier Bureau's Industry Analysis Division, (202) 418-0940, or for users of TTY equipment, call (202) 418-0484.

Table 8: Revenue by Type of Filer for 1998
(Amounts Shown in Millions)

Data Filed on Universal Service Worksheets

Service Provider Category	Carrier's Carrier Revenue			End-user Revenue **				Total Telcom.**	Other Revenue	Gross Revenue			
	Local	Mobile	Toll	Total	Local	Mobile	Toll				Intrastate	Interstate	Total
Regional Bell Operating Companies Other Incumbent Local Exchange Carriers (ILECs)	\$17,059.5	\$180.7	\$247.5	\$17,487.7	\$53,867.6	\$122.2	\$6,777.9	\$51,429.5	\$9,338.3	\$60,767.7	\$78,255.5	\$6,708.8	\$84,964.3
	10,353.5	5.8	104.7	10,464.1	16,602.2	120.0	2,271.9	16,526.5	2,467.5	18,994.0	29,458.1	3,900.6	33,358.7
All ILECs	27,413.0	186.5	352.2	27,951.8	70,469.8	242.2	9,049.8	67,956.0	11,805.8	79,761.8	107,713.6	10,609.4	118,322.9
Pay Telephone Service Providers	138.1		17.7	155.8	751.3		133.0	799.2	85.1	884.3	1,040.1	51.4	1,091.5
Competitive Access Providers (CAPs) and Competitive Local Exchange Carriers (CLECs)	1,339.8		117.4	1,457.3	1,049.1	4.6	787.8	970.8	870.8	1,841.5	3,299.0	302.9	3,602.0
	5.5		40.9	46.4	220.4	20.1	123.0	234.3	129.2	363.5	410.0	42.0	452.0
	1.0		22.1	23.2	46.8	3.4	73.2	62.8	60.6	123.4	146.5	125.5	272.1
	0.2			0.2	42.9		50.2	48.2	44.9	93.1	93.3	42.7	136.0
	4.9	0.9		5.8	6.4	9.3	14.0	14.0	15.7	29.7	35.5	4.5	40.0
Local Service Providers Other Than ILECs and Pay Telephone Providers	1,351.4	0.9	180.5	1,532.8	1,365.6	37.4	1,048.2	1,330.1	1,121.2	2,451.3	3,984.4	517.7	4,502.1
Local Service Providers	28,902.5	187.4	550.5	29,640.4	72,586.7	279.6	10,231.0	70,085.3	13,012.1	83,097.4	112,738.0	11,178.5	123,916.6
Wireless Telephony Including Cellular, Personal Communications Service (PCS) and SMR - Telephony Carriers Paging Services Providers SMR Dispatch & Other Mobile Services Providers	35.1	2,263.5	348.2	2,646.8	36.1	29,321.1	993.2	27,023.2	3,327.1	30,350.3	32,998.8	4,243.7	37,242.5
	0.2	441.6	0.2	442.0	1.9	2,625.4	20.3	2,317.7	329.8	2,647.6	3,089.6	1,323.2	4,412.8
		122.7	21.3	144.0		536.7	38.5	379.0	196.2	575.2	721.7	133.9	856.6
All Wireless Service Providers	35.3	2,827.8	369.7	3,232.8	38.0	32,483.2	1,052.0	29,720.0	3,853.2	33,573.1	36,810.1	5,700.8	42,510.9
Interexchange Carriers (IXCs) Operator Service Providers (OSPs) Prepaid Calling Card Providers Satellite Service Carriers Toll Resellers Other Toll Carriers	128.4	0.2	10,427.2	10,555.8	1,861.7	303.8	69,714.2	19,542.2	52,337.6	71,879.7	83,254.4	9,342.9	92,597.3
	5.6		21.1	26.8	29.6	116.9	387.0	231.8	301.7	533.5	560.3	114.5	674.9
	0.3		126.7	127.0	0.2	0.3	737.2	158.2	579.5	737.7	866.6	56.6	923.3
			19.2	19.2	0.1		116.2	7.9	108.4	116.3	138.1	1,245.1	1,383.1
	118.7	29.0	1,267.4	1,415.2	223.0	357.1	6,757.2	2,746.3	4,590.9	7,337.3	9,018.5	261.0	9,279.5
	15.6	0.1	470.0	485.7	21.7	*	154.8	46.3	130.3	176.5	688.7	44.5	733.3
All Toll Service Providers	268.7	29.4	12,331.5	12,629.5	2,136.3	778.1	77,866.6	22,732.7	58,048.4	80,781.1	94,526.7	11,064.7	105,591.4
All Interstate Service Providers	\$29,206.5	\$3,044.6	\$13,251.6	\$45,502.7	\$74,761.0	\$33,540.9	\$89,149.6	\$122,538.0	\$74,913.6	\$197,451.6	\$244,074.8	\$27,944.0	\$272,018.8

Note: Figures may not add to totals due to rounding.

* Denotes figures greater than \$0 but less than \$50,000.

** End-user revenue excludes international-to-international revenue (see line 42, Table 6). International-to-international revenue is included in total telecommunications revenue reported by Universal Service Worksheet filers and in revenue amounts shown for all telecommunications service providers.

THE EMERGING DIGITAL ECONOMY

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As late as 1980, phone conversations only traveled over copper wires which carried less than one page of information per second. Today, a strand of optical fiber as thin as a human hair can transmit in a single second the equivalent of over 90,000 volumes of an encyclopedia.¹⁴ By 2002, a constellation of several hundred satellites orbiting hundreds of miles above the earth is expected to bring high-bandwidth¹⁵ communications to businesses, schools and individuals everywhere on the planet.

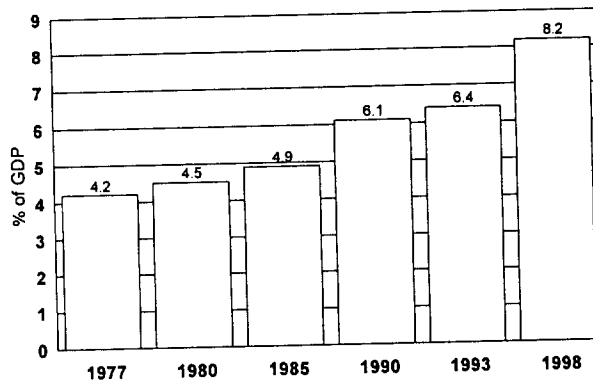
A global digital network using new packet switching technology¹⁶ combines the power of these remarkable innovations in computing and communication. The Internet ties together the computing power on desks, in factories and in offices around the world through a high-speed communications infrastructure. More than 100 million people around the world, most of whom had never heard of the Internet four years ago, now use it to do research, send e-mail to friends, make requests for bids to suppliers, and shop for cars or books.

The Internet's pace of adoption eclipses all other technologies that preceded it. Radio was in existence 38 years before 50 million people tuned in; TV took 13 years to reach that benchmark. Sixteen years after the first PC kit came out, 50 million people were using one.¹⁷ Once it was opened to the general public, the Internet crossed that line in four years.¹⁸

Growing Economic Importance of the IT Sector:

One of the most notable economic developments in recent years has been the rapid increase in the IT sector's (computing and communications) share of investment activity and of the gross domestic product (GDP). It grew from 4.9 percent of the economy in 1985 to 6.1 percent by 1990 as the PC began to penetrate homes and offices. The next spurt started in 1993, with the burst of commercial activity driven by the Internet. From 1993 to 1998, the IT share of the economy will have risen from 6.4 percent to an estimated 8.2 percent (Figure 2). With such rapid expansion, IT's share of total nominal GDP growth has been running almost double its share of the economy, at close to 15 percent.

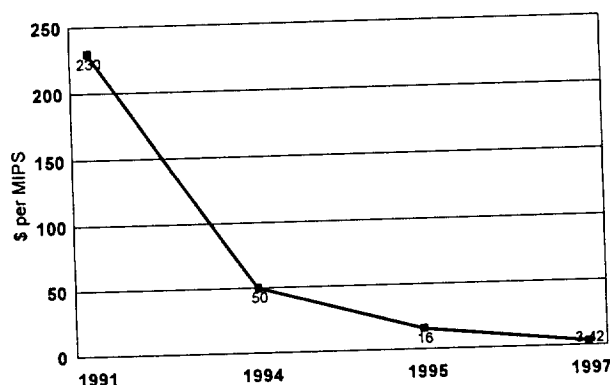
Figure 2. IT's Share of the Economy Grows



Source: U.S. Department of Commerce
Economics and Statistics Administration
Estimates based on Bureau of Economic Analysis and Census data

What makes this rise in IT's nominal share of the economy even more remarkable is the fact that IT prices, adjusted for quality and performance improvements, have been falling while prices in the rest of the economy have been rising.

Figure 3. Microprocessor Prices Plummet from \$230 per MIPS to \$3.42 per MIPS in 6 years

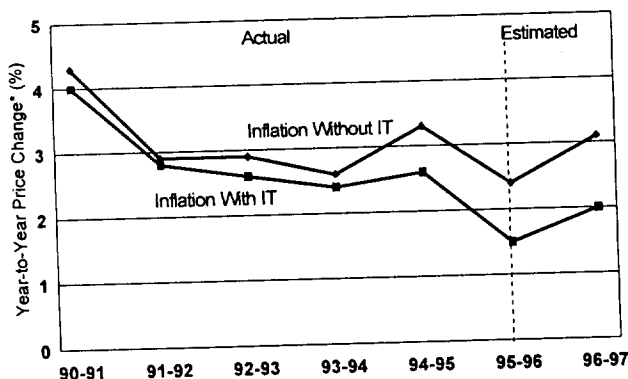


Source: Intel

Computing power has been doubling every 18 months for the past 30 years. At the same time, the average price of a transistor has fallen by six orders of magnitude, due to microprocessor development. In just six years' time, the cost of microprocessor computing power has decreased from \$230 to \$3.42 per MIPS (Figure 3). No other manufactured item has decreased in cost so far, so fast.¹⁹

In 1996 and 1997, declining prices in IT industries lowered overall inflation by one full percentage point (Figure 4). Without the contribution of the IT sector, overall inflation, at 2.0 percent, would have been 3.1 percent in 1997.

Figure 4. IT Industries Help to Keep Inflation Down



*As measured by the Gross Domestic Income Implicit Price Deflator

Source: U.S. Department of Commerce Economics and Statistics Administration
Estimates based on Bureau of Economic Analysis and Census data

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Excel Communications Hot News

Excel Communications Announces Three Cents-A-Minute Calling Plan

DALLAS - Excel Communications, Inc. today announced an innovative long distance calling plan for new and existing residential customers. Excel's Three-Penny Plan allows customers to make interstate calls between 7 p.m. and 7 a.m., 7 days a week, including holidays, and pay only three cents a minute. The interstate rate between 7 a.m. and 7 p.m. is 10 cents per minute, the monthly service charge for the plan is \$5.95 and intrastate rates vary.

"Excel's Three-Penny Plan complements our comprehensive offering of telecommunications products and services," said Kenny A. Troutt, Excel's founder and chief executive officer. "The Three-Penny Plan enables our independent representatives (IRs) to attract new business by offering value-added services. At Excel, our goal is simply to provide the best value to our customers while enhancing the business-building opportunities for our IRs."

Excel's Three-Penny Plan promotion applies to calls throughout the United States and is only available to customers who sign up between October 15, 1999 and December 31, 1999. After the October 15, 1999 through December 31, 1999 limited sign-up window closes, those customers who signed up can retain the plan, but no additional customers will be added to the Three-Penny Plan after the December 31, 1999 deadline.

Troutt added, "A year ago we announced Excel's Simply 7 Plan with 7 cents-a-minute, flat-rate interstate pricing. This was an innovative way to offer consumers calling flexibility throughout the day all week long. We are just now seeing the competition follow suit. With today's announcement, Excel resumes its leadership position by offering a new product, the Three-Penny Plan, that will meet the needs of consumers with heavy interstate calling patterns during off-peak hours. We are able to offer this new plan because Excel is a facilities-based provider and we can leverage our network."

For more information about Excel's Three-Penny Plan promotion, please call 1-888-ORDER-XL.

About Excel

Dallas-based Excel Communications, Inc., a subsidiary of Teleglobe Inc., is one of the largest providers of telecommunications services in the United States. Through a combination of distribution channels including network marketing, commercial sales offices and direct mail, Excel offers subscribers residential and commercial long distance service, as well as Internet access, dial-around services, calling cards and paging services. Excel markets these products nationwide to residential and commercial customers under the Excel and Telco brand names. Visit Excel's home page on the World Wide Web: www.excel.com.

Teleglobe Inc. (NYSE, TSE, ME: TGO) is a recognized leader in global telecommunications. Through its other subsidiary Teleglobe Communications Corporation, it develops and supplies global connectivity services to carriers, ISPs, multinational corporations and broadcast customers worldwide. Teleglobe Inc. is the fourth-ranked long distance provider in the United States, based on revenue and capacity, and is the third-largest owner of international undersea fiber optic cable systems in the world. Teleglobe has a

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PLUS A SIGN UP BONUS:

1¢ a minute long distance
Sign up and receive 120 minutes of calling at only a penny a minute.

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10 international minutes each month for 1¢ per minute!

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Calling card calls from pay phones incur a 30 cent surcharge.

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MCI WorldCom and Sprint Merger: Anti-Competitive Problems in Long Distance, Internet, International Markets Employment Cuts; Service Quality Problems in Local Markets

CWA sees seven major problems in a merger between MCI WorldCom and Sprint: anti-competitive problems in 1) long distance, 2) Internet, and 3) international markets; 4) employment cuts; 5) local telephone service quality degradation; 6) failure to resolve labor relations problems; and 7) elimination of competition in federal telecommunications contracts.

CWA also believes that regulators may not accept an Internet divestiture as a remedy to the Internet monopoly problem. Cable & Wireless, which purchased MCI's Internet business after U.S. and European regulators required that spin-off as a condition of the MCI WorldCom merger, has filed a complaint in federal court against MCI for breach of contract.

1. Undue Concentration in Long Distance Markets

- A MCI WorldCom-Sprint merger would combine the second and third largest long distance companies in an already highly concentrated market. Today, the three largest long distance companies control 80 percent of the market.

Market share today (based on long distance revenue)

AT&T	43 percent
MCI WorldCom	26 percent
Sprint	11 percent

Market share post-merger

AT&T	43 percent
MCI WorldCom-Sprint	37 percent

Qwest (2%), Telelobe (2%), Williams (1.8%), Frontier (1.5%), Cable & Wireless (1.0%)

Source: FCC, 1998

- A merger of MCI WorldCom and Sprint would surpass U.S. Department of Justice permitted market concentration levels.

The DOJ uses the Herfindahl-Hirschman Index (HHI) to measure market concentration. According to the 1992 DOJ Merger Guidelines, if the pre-merger HHI is above 1800, a post-merger change of more than 100 points creates a presumption of illegality.¹

Post-MCI WorldCom-Sprint merger HHI	3160
<u>Pre-MCI WorldCom-Sprint merger HHI</u>	<u>2623</u>
Difference	537

The pre-merger HHI of 2623 indicates a highly concentrated market. The post-merger change of 537 points is well above the threshold to create a presumption of illegality.¹

- When the Federal Communications Commission (FCC) approved the MCI WorldCom merger last year, Chairman William Kennard was quoted as saying that "once this merger is consummated, the industry will again be poised just a merger away from undue concentration." (Sept. 14, 1998)

2. Monopoly in the Internet Backbone Market, with No Effective Remedy

- A merger between MCI WorldCom and Sprint would combine the largest and second largest Internet backbone providers, with approximately two-thirds of the long-haul Internet market.

Last year, under similar market conditions, the European Commission and the U.S. Department of Justice required MCI to sell its entire Internet business for \$1.75 billion to Cable & Wireless as a condition for approval of that merger.

Sprint supported that spin-off, arguing before the FCC that "the Commission should require as a condition of the WorldCom/MCI merger, that the merging parties spin off either WorldCom's or MCI's Internet assets." (Sprint Corporation Comments to FCC, Mar. 13, 1998). In applauding the European Commission's MCI WorldCom merger investigation, Sprint noted that the "MCI/WorldCom merger...raises serious anti-competitive issues" which would "short-circuit the growth of the global information network." (Sprint Press Release, Mar. 4, 1998)

¹ The HHI is calculated by adding the squares of each company's market share. The pre-merger HHI in the long distance market is AT&T (43.1 x 43.1) + MCI WorldCom (25.6 x 25.6) + Sprint (10.5 x 10.5) = 1858 + 655 + 100 = 2623. Post-merger HHI is AT&T (43.1 x 43.1) + MCI WorldCom-Sprint (36.1 x 36.1) = 1858 + 1303 = 3160. The difference between post-merger 3160 and pre-merger 2623 = 537.